

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 L-03 H-01 DODE-00 PA-01 PRS-01 AGRE-00
/098 W

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R 271516Z JAN 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 213
TREASURY DEPT WASHDC
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMCONSUL MILAN
AMCONSUL NAPLES
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 1677

PASS FRB; BRUSSELS FOR USEC; PARIS FOR USOECD

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: ITALIAN FINANCIAL MARKET DEVELOPMENTS (78-1)

REF: 77 ROME 20849

1. ACCORDING TO MONETARY MOVEMENTS DATA THROUGH END
DECEMBER, ITALY'S OVERALL BALANCE OF PAYMENTS WAS IN
SURPLUS FOR THE YEAR 1977 IN THE AMOUNT OF \$2.4 BILLION,
AS COMPARED TO A DEFICIT OF \$1.2 BILLION IN 1976. IN
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DECEMBER THE SURPLUS WAS \$425 MILLION. FOR THE YEAR
1977, A SURPLUS ON CURRENT ACCOUNT ESTIMATED AT
BETWEEN 1-1/2 AND 2 BILLION DOLLARS PLUS AN INFLOW
OF SHORT-TERM BANK FUNDS OF \$3.6 BILLION PERMITTEDN
THE BANK OF ITALY TO INCREASE CONVERTIBLE FOREIGN
EXCHANGE RESERVES BY \$4.8 BILLION AND MEET NET DEBT
SERVICE PAYMENTS OF ABOUT \$1 BILLION. GROSS PAYMENTS

ON MATURING OFFICIAL DEBT WERE ABOUT \$1.9 BILLION, OF WHICH \$1.1 BILLION WERE TO THE IMF. IT ALSO SEEMS THAT ITALY EXPERIENCED A NET INFLOW OF COMMERCIAL CREDIT OR OTHER NON-BANK CAPITAL DURING 1977, NOTWITHSTANDING A NET OUTFLOW OF COMMERCIAL CREDIT OF ABOUT \$1 BILLION IN THE FIRST QUARTER OF THE YEAR. AS OF DECEMBER 31, 1977, CONVERTIBLE FOREIGN EXCHANGE RESERVES WERE \$7.9 BILLION AND THE NET DEBTOR POSITION OF THE COMMERCIAL BANKS WAS \$6.6 BILLION. BECAUSE OF THE RISE IN THE MARKET PRICE OF GOLD DURING THE YEAR, ITALY'S GOLD HOLDINGS WERE EVALUATED AT \$11.3 BILLION AT END 1977, COMPARED TO 9.3 BILLION A YEAR BEFORE. (SEE TABLES 1-3.)

2. THE PRINCIPAL RECENT DEVELOPMENT IN THE EXCHANGE MARKET WAS THE WEAKENING OF THE LIRA ROUND THE MIDDLE OF JANUARY. THE BLACK MARKET LIRA WAS AT A SIGNIFICANT DISCOUNT BEGINNING IN THE FIRST WEEK OF JANUARY, AND DURING THE FOLLOWING WEEK THE BLACK MARKET RATE RANGED UP TO 935 AGAINST AN OFFICIAL RATE OF ABOUT 875. THE LIRA ALSO WEAKENED ON THE FORWARD MARKET DURING THIS PERIOD. THE WEAKENING OF THE LIRA SEEMED TO BE ASSOCIATED WITH HEIGHTENED POLITICAL UNCERTAINTIES AT THAT TIME, THE RESIGNATION OF THE ANDREOTTI GOVERNMENT, AND RUMORS PUBLISHED IN THE PRESS THAT THE AUTHORITIES WERE ABOUT TO REIMPOSE STRINGENT FOREIGN LIMITED OFFICIAL USE

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EXCHANGE CONTROLS. THE BANK OF ITALY RESPONDED BY AGGRESSIVELY SUPPORTING THE LIRA ON THE MARKET AND HASTENING TO RELEASE DATA ON AMPLE RESERVE HOLDINGS AND ON THE GOOD PERFORMANCE OF THE BALANCE OF PAYMENTS FOR THE YEAR 1977. CALM PROMPTLY RETURNED TO THE FOREIGN EXCHANGE MARKET, AND SINCE THEN THE LIRA HAS RESUMED ITS STABILITY VIS-A-VIS THE DOLLAR, WHILE DEPRECIATING AGAINST THE OTHER EC CURRENCIES.

3. SHORT-TERM INTEREST RATES HAVE CONTINUED TO DECLINE DURING THE RECENT PERIOD. THE COST OF LIVING INCREASE REPORTED FOR DECEMBER WAS CONSISTENT WITH A PERHAPS FURTHER REDUCTION IN INFLATIONARY EXPECTATIONS. IT WAS ONLY 0.5 PERCENT, THE SMALLEST MONTHLY INCREASE SINCE MAY 1976. THE BANK OF ITALY'S STANCE ON THE LEVEL OF INTEREST RATES IS PERHAPS BEST INDICATED BY ITS INTERVENTION POLICY AT THE MONTHLY TREASURY BILL AUCTIONS. IN BOTH JANUARY AND DECEMBER THE BANK OF ITALY STEPPED IN TO PREVENT ANY INCREASE AT THE AUCTIONS IN THE RATES ON TREASURY BILLS. IT SEEMS THE MONETARY AUTHORITIES MAY BELIEVE THAT THERE IS SOME FURTHER MARGIN FOR REDUCING

LENDING RATES AND DOES NOT WANT TO RISK THWARTING
SUCH A MOVE BY THE BANKS BY ALLOWING RATES ON
TREASURY BILLS TO RISE. THE PRIME RATE WAS LOWERED
TO 16 PERCENT ON DECEMBER 1, 1977 (TABLE 4). IN
OPEN-MARKET OPERATIONS, HOWEVER, THE BANK OF ITALY
MADE NET SALES OF GOVERNMENT SECURITIES OF ABOUT
\$900 MILLION IN DECEMBER. TOTAL OPERATIONS IN
GOVERNMENT SECURITIES BY THE BANK OF ITALY THROUGH
DECEMBER CONTINUE TO DECREASE MONETARY BASE CREATION
CAUSED BY THE BALANCE OF PAYMENTS SURPLUSES.

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LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 1677

PASS FRB; BRUSSELS FOR USEC; PARIS FOR USOECD

TABLE 1
MONETARY MOVEMENTS (1)
(MILLIONS OF DOLLARS)

NOV. 1-30 DEC 1-31 JAN 1-DEC 31

1. BOI/UIC

GOLD	-	911.4	1,939.6
CONV. FOR. EX.	636.0	-213.5	4,816.2
OTHER	52.5	-948.9	-951.5

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TOTAL BOI/UIC 688.5 -251.0 -5,804.3

2. COM. BANKS' NET

FOREIGN POSITION -651.3 589.3 -3,611.3

SUB-TOTAL 37.2 338.3 2,193.0

3. FOR. EXCHANGE

ADJUSTMENT -0.6 86.5 220.1

4. SURPLUS/DEFICIT 36.6 424.8 2,413.1

(1) INCLUDES GOLD STOCK REVALUATION OF \$1,922.0 MILLION IN THE PERIOD JANUARY-DECEMBER AND OF \$902.4 MILLION IN DECEMBER. EQUAL CONTINGENT LIABILITY INCLUDED IN "OTHER."

5. TABLE 2
FOREIGN RESERVE POSITION
(MILLIONS OF DOLLARS)

	1976	1977	
	DEC. 31	NOV. 30	DEC. 31

1. BOI/UIC

GOLD	9,320.5	10,348.7	11,260.1
CONV. FOR. EX.	3,132.0	8,161.7	7,948.2
OTHER (INCL. GOLD REVALUATION)(1)	-12,372.0	-12,374.6	-13,323.5

TOTAL BOI/UIC 80.5 6,135.8 5,884.8

2. COMMERCIAL BANKS'

NET FOREIGN
POSITION -3,011.0 -7,211.6 -6,622.3

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TOTAL -2,930.5 -1,075.8 -737.5

(1) INCLUDES LIABILITIES TO EC, BUNDESBANK AND IMF.

6. TABLE 3
EXTRAORDINARY TRANSACTIONS
(MILLIONS OF DOLLARS)

	NOV. 1-30	DEC. 1-31	JAN 1-DEC. 31
FIAT/LIBYA	--	--	306.0
IMF (1974) STANDBY	--	--	-828.5
IMF (1977) STANDBY	--	--	104.0
IMF GOLD TRANCHE	SU	--	-290.9
BUNDESBANK GOLD LOAN	--	--	-236.0
EC LOAN	--	--	500.0
IMF OIL FACILITY			
FIRST REPAYMENT	--	-19.5	-19.5
GOLD REVALUATIONS	--	902.4	1,922.0
EUROMARKET LOANS	-152.3R	--	-521.8

R EQUALS REVISED

7. TABLE 4
FOREIGN EXCHANGE AND MONEY
MARKET RATES

	NOV. 29	DEC. 28	JAN. 25
LIRA/\$ SPOT	877	874	867
LIRA/\$ 6 MO.	902	916	905
LIRA/\$ BLACK MKT	871	873	917

BOI FX INDEX (1)

ALL CURRENCIES	-38.47	-39.96	-39.84
DOLLAR	-33.76	-33.49	-32.99

INTEREST RATES

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INTERBANK 3 MO.	11.69	11.438	11.188
"PRIME" RATE	17.00	16.00	16.00
AVERAGE BOND	14.50	14.31	14.198
LIRA/\$ 3 MO. DISCOUNT	6.4	11.1	9.0
EURODOLLAR 3 MO.	7.13	7.50	7.375

(1) WEIGHTED AVERAGE PERCENT DEPRECIATION SINCE 2/9/73
(SECOND DOLLAR DEVALUATION)

8. TABLE 5
MONETARY AND CREDIT AGGREGATES
(RATES OF CHANGE IN PERCENT)

1977

1Q 2Q 3Q 12 MOS.
ENDING

MONETARY BASE (1)

RAW	2.9	2.0	3.5	19.2 (NOV.)
SEAS. ADJ.	5.3	1.9	5.1	
M1, SEAS. ADJ. (2)	6.6	3.4	4.6	21.4 (OCT.)
M3, SEAS. ADJ. (3)	6.7	3.8	4.0	22.4 (SEPT.)

TOTAL DOMESTIC

CREDIT	3.7	3.9	2.9	-19.0 (OCT.)
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(1) EXCLUDING POSTAL DEPOSITS

(2) CURRENCY IN CIRCULATION PLUS DEMAND DEPOSITS

(3) M1 PLUS SAVINGS DEPOSITS AND TREASURY BILLS IN HANDS
OF NON-BANK PUBLIC. GARDNER

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